

Russia's first attempt at regulation of crypto assets

Less than three months after Russia's president made it clear that the rouble was to remain the only legal tender in the country, and that initial coin offerings (ICOs) were to be treated similarly to IPOs, the country's Ministry of Finance has put together a bill that seeks to define the legal status of tokens and lay down the general regulatory framework for crypto assets.

The Ministry's five-pager does not just address the problem of the notorious so-called 'security tokens', i.e. tokens that carry profit-sharing or voting rights. Instead, it purports to regulate all kinds of crypto assets, distinguishing between:

- digital assets as a whole;
- cryptocurrency, created and recorded in a distributed ledger by the participants of that ledger; and
- tokens, issued for fundraising purposes by a company or a self-employed individual, and recorded in a digital ledger.

Crypto exchanges

While crypto assets cannot be a legal tender in Russia, the draft specifically allows their exchange, including exchange for fiat currency and other property; however, this can only be done through a digital asset exchange operator (Operator). According to the Ministry's definition, an Operator is a Russia-incorporated regulated broker, dealer or asset manager.

Mining

Mining is defined as the creation of cryptocurrency and/or the act of (ostensibly, transaction) validation, the aim of which is to receive a reward in cryptocurrency. Mining is classified by the bill as a business activity.

This is the proposal that has drawn most criticism, with sceptics saying that it is overly restrictive and unenforceable.

ICO disclosure requirements

The bill details the information to be included in public offers and accompanying investment memoranda, which have to be published before every public offering of tokens.

Investment memoranda do not need to be anywhere near as detailed as, for instance, IPO prospectuses. However, the issuer must disclose, among other things, information on its shareholders and corporate governance structure.

The public offer must be signed by an encrypted signature of the issuer's director, and if the issuer keeps the records on the token-holders' rights, a copy of the offer and the investment memorandum are to be filed with a custodian.

Retail token subscription cap

For those that fail to meet the qualified investors criteria laid down in Russia's Federal Law 'On Financial Markets', the per-issue cap on token subscription is set at 50,000 Russian roubles. Token acquisition is effected by

recording the transaction in a specialised digital wallet opened with an Operator. This wallet will not have access to the digital transaction ledger – unlike the wallets of qualified investors. If the bill is to become law, Russia’s Central Bank will be expected to lay down a procedure for the opening and maintenance of such specialised wallets.

What next?

The bill, which appears to have been hastily drafted, is currently undergoing a public consultation where it faces severe opposition from business and the general public alike. It is likely that some changes will be made before the bill goes to a vote; however, in light of the president’s decrees, the core approach is likely to remain unchanged.

CIS London & Partners will keep you abreast of any developments in the area.



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